Supreme Court, U. S.
FILED
AUG 9 1978
MICHAEL RODAK, JR., CLERK

IN THE
SUPREME COURT OF THE UNITED STATES
October Term, 1978

No. 78-194

CHAMPION OIL COMPANY, INC.,
an Alaska Corporation,

Petitioner,

CHARLES F. HERBERT, Commissioner,
and THOMAS E. KELLY, Former
Commissioner of Department of
Natural Resources; F. J. KEENAN,
Director of Division of Lands;
THE STATE OF ALASKA; and F. T.
WETZEL,

Respondents.

Petition for a Writ of Certiorari to the
Supreme Court of the State of Alaska

FRANCIS J. CONKLIN, ESQ.
Counsel for Petitioner
555 Lincoln Building
Spokane, Washington
99201

OF COUNSEL
FELICE AND FELICE
Attorneys at Law
DENNIS W. CLAYTON, ESQ.
555 Lincoln Building
Spokane, Washington
99201

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DENNIS W. CLAYTON, ESQ.
555 Lincoln Building
Spokane, Washington
99201

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IN THE SUPREME COURT
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vs.

CHARLES F. HERBERT, Commissioner, and THOMAS E. KELLY, Former Commissioner of Department of Natural Resources; F. J. KEENAN, Director of Division of Lands; THE STATE OF ALASKA; and F. T. WETZEL,

Respondents.

Petition for a Writ of Certiorari to the Supreme Court of the State of Alaska

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The Petitioner prays that a Writ of Certiorari issue to review the judgments of the Supreme Court of the State of Alaska entered in the above case on May 5, 1978.

CITATION TO OPINION BELOW

The opinion of the Superior Court of the State of Alaska granting Respondents' Motion for Summary Judgment is printed in Appendix B hereto and is not reported.

The opinion of the Supreme Court of the State of Alaska, which affirmed the judgment of the Superior Court for the State of Alaska is printed in Appendix A hereto and is reported at 578 P.2d 961.

JURISDICTION

The opinion of the Supreme Court of the State of Alaska printed in Appendix A hereto, was entered on May 5, 1978.

The jurisdiction of this Court is invoked under 28 U.S.C. 1257.

QUESTIONS PRESENTED

On September 10, 1969, the State of Alaska conducted the 23rd Oil and Gas Lease Sale by competitive bidding

conducted pursuant to 11 A.A.C. 84. 11 A.A.C. 84.108 provided that " The Director [of Natural Resources] may, but need not prescribe the minimum bid that will be considered," and 11 A.A.C 84.110 provided that "the minimum bid that will be considered, if the director elects to prescribe any minimum bid...shall be published...in at least one newspaper of general circulation..." 11 A.A.C. 84.114.

1. Is a participant in a competitive bid lease sale of public mineral lands entitled to such minimum due process protection as will afford him notice, prior to bidding, of the minimum requirements which must be met in order to effectively pursue and compete for acquisition of the offered lands?

(a) Did the laws of the State of Alaska create <u>any</u> interest in such a participant?

(b) If such an interest was created, did it amount to a property interest or claim of entitlement within the meaning of the Due Process Clause thus requiring minimum due process protection?

(i) Is the existence of a property interest or claim of entitlement determined by state law or federal constitutional law? That is, once the state has created an interest or claim of entitlement, will principles of federal constitutional law or state law be applied to determine whether such status or opportunity must be deemed a property interest or "legitimate claim of entitlement?"

(c) If such a participant does possess a claim of entitlement or property interest, to what extent is such an interest accorded due process protections?

(d) Did the failure of the Director of the Division of Lands to publish notice

of minimum bid requirements, in violation of state regulations, deprive such participant of the minimum due process protections to which it was entitled?

CONSTITUTIONAL PROVISIONS, STATUTES AND REGULATIONS INVOLVED

Constitutional Provisions

"...nor shall any State deprive any person of life, liberty, or property, without due process of law..." United States Constitution, Amendment XIV

Federal Statutes

"Final judgments or decrees rendered by the highest court of a State in which a decision could be had, may be reviewed by the Supreme Court as follows:

...

(3) By Writ of Certiorari, where ...any title, right, privilege or immunity is especially set up or claimed under the constitution... of...the United States." 28 U.S.C. 1257 (1948)

Alaska Statutes

"...(a) The Director shall... (4) prescribe application procedures and practices for the sale,

lease or other disposition of available lands, resources, property, or interest in them." A.S. 38.05.035 (1959)

"...(b) the Commissioner may (1) establish reasonable procedures and adopt reasonable rules and regulations..." A.S. 38.05.020 (1959)

"...whenever oil or gas is discovered in commercial quantities, the Commissioner shall determine the extent of the area of lands...which, by reason of the discovery, the Commissioner reasonably believes to be capable of producing oil or gas, and the additional lands shall be leased to the highest responsible qualified bidder by competitive bidding under general regulations ..." A.S.38.05.180 (1959)

Alaska Administrative Code

"Competitive lands may be leased only upon competitive bidding by cash bonus bids submitted in response to a published notice of leased offer." 11 A.A.C. 505.11 (1967)

"The Director may, but need not, prescribe the minimum bid that will be considered at any lease sale. 11 A.A.C. 84.108 (1959)

"When competitive lands are offered for lease, a notice of lease offer shall be published. The notice shall specify as to each lease offered
...
(9) The minimum bid that will be considered if the Director elects to prescribe any minimum bid..." 11 A.A.C. 84.110 (1959)

"The notice of lease offer shall be published once a week for three consecutive weeks preceeding the time of the lease sale. Not less than one week shall elapse between the first appearance of the published notice and the date of the lease sale." 11 A.A.C. 84.112 (1959)

"The notice shall be published in at least one newspaper of general circulation in the vicinity of the lands offered for lease, if if there be such a newspaper, and in the vicinity of the principal office of the division and in at least one newspaper of general circulation in the vicinity of the place of the lease sale if such place is not in the vicinity of the principal office of the Division." 11 A.A.C. 84.114. (1959)

"The Director, with the concurrence of the Commissioner, may reject all bids if he determines that the best interests of Alaska justify such action." 11 A.A.C. 84.132 (1959)

"Within a reasonable time following the lease sale, the Director shall award the lease to the responsible qualified bidder offering the highest cash bonus and complying with the bid requirements unless all bids are rejected." 11 A.A.C. 84.136 (1959)

STATEMENT

In 1969, the Alaska Administrative Code provided:

"Competitive lands may be leased only upon competitive bidding by cash bonus bids submitted in response to a published notice of lease offer." 11 A.A.C. 505.11 (1967)

"The Director may, but need not, prescribe the minimum bid that will be considered at any lease sale." 11 A.A.C. 84.108 (1959)

"When competitive lands are offered for lease, a notice of lease offer shall be published. The notice shall specify as to each lease offered...
(9) the minimum bid that will be considered if the Director elects to prescribe any minimum bid ..." 11 A.A.C. 84.110 (1959)

Pursuant to the above Alaska Administrative Code sections, the

Director of the Alaska Division of Lands notified the petroleum industry by open letter, dated July 10, 1969, that the State of Alaska would accept competitive bids on one hundred seventy-one (171) tracts of oil-producing land on the Alaskan North Slope. A second notice, dated August 11, 1969, announced that eight (8) additional tracts would be offered for lease. The notice set forth bidding procedures and requirements but stated no minimum prescribed bid. Pursuant to Alaska Administrative Code 11 A.A.C. 84.114 and 11 A.A.C. 84.112, said notice was published in two local newspapers on August 12, 19 and 26, 1969.

Petitioner, Champion Oil Company, Inc. is a corporation organized and existing under the laws of the State of Alaska. In response to the published notice mentioned above, Petitioner bid on all

leases offered in the 23rd Competitive Oil and Gas Lease Sale on September 10, 1969. Since no minimum bid was published, as required by the Alaska Administrative Code, Petitioner submitted bids on each of the one hundred seventy nine (179) tracts in the amount of "One Dollar ($1.00) or more" per tract. Petitioner duly complied with all bidding requirements set out in the notice.

The Alaska Administrative Code further provided:

> "Within a reasonable time following the lease sale, the director shall award the lease to the responsible qualified bidder offering the highest cash bonus and complying with the bid requirements unless all bids are rejected." 11 A.A.C. 84.136.
>
> "The Director, with the concurrence of the Commissioner, may reject all bids if he determines that the best interests of Alaska justify such action. 11 A.A.C. 84.132.

Petitioner was the only bidder, and therefore was the responsible, qualified bidder offering the highest cash bonus on seven (7) of the offered tracts in the 23rd Competitive Oil and Gas Lease Sale. Nevertheless, on September 17, 1969, the Director of the Division of Lands, with the concurrence of the Commissioner of Natural Resources, rejected Petitioner's bids on the basis that it was "not in the best interest of the State of Alaska to accept the apparent high bids submitted" by Petitioner.

On November 5, 1976, Pedro Denton, the Chief of the Mineral Section for the State of Alaska, Division of Lands, filed an affidavit stating the reasons for rejecting the Petitioner's bids. On page five of said affidavit, Mr. Denton stated that "since the amount bid was so small and since he bid upon each and every tract offered at the sale we felt that the bids

were not meant to be seriously considered." At page 11 Mr. Denton further stated that "[I]t was also felt that the Department should consider that no bids were even received on these particular seven (7) tracts since the '$1.00 or more' bids could not be considered as bids intended to compete for oil and gas leases." Finally, he stated that "[A]t any rate, it was certainly felt that it would not be in the best interests of the State of Alaska to consider Champion Oil's offer of '$1.00 or more' bonus bids for these seven (7) tracts."

On October 10, 1969, Petitioner filed a Summons and Complaint in the Superior Court of the State of Alaska, Third Judicial District (No. 69-2747D) challenging the Director's decision. On July 17, 1973, said action was dismissed without prejudice for failure to prosecute.

On July 15, 1974, Petitioner again filed a Summons and Complaint in the Superior Court of the State of Alaska, Third Judicial District,(No. 77-4411). In the First Claim for Relief, Paragraph No. Two of said Complaint, Petitioner alleged that it was:

> "...an aggrieved bidder entitled to receive oil and gas leases under competitive bid procedures conducted by the Alaska Division of Lands... ."

Paragraph No.10 of said Claim for Relief further alleged that:

> " The sole and only bids upon the tracts herein in question were submitted by the plaintiff, and though defendants purportedly have the right under appropriate regulations to specify minimum acceptable bids, no minimum bids were published, and plaintiff being high bidder upon said tracts is entitled to receive leases upon same pursuant to the provisions of 505.51 Alaska Oil and Gas Leasing Regulations, the XIV Amendment to the United State Constitution, and

> Article I, Sections 1 and 7 State of Alaska Constitution, in that the majority of other high bidders at the 23rd Lease Sale were issued leases, and plaintiff is entitled to the same equal treatment and defendant's action in denying same deprives plaintiff of a valuable property rights [sic] without due process of law, which is prescribed [sic] by the constitutional provisions referred to."

On November 11, 1976, the State answered Petitioner's Complaint and moved for Summary Judgment. On February 23, 1977 Judge Ralph E. Moody, Presiding Superior Court Judge for the Third Judicial District of the State of Alaska, granted Respondents' Motion for Summary Judgment, holding that "there appears to

be a rational basis for rejecting the bids on the basis that the bids were not in the best interest of the State" and affirming the decision of the Commissioner of Natural Resources and the Director of the Division of Lands to reject the Petitioner's bids.

Petitioner appealed the Summary Judgment on March 21, 1977, by filing a Notice Of Appeal And Statement Of Points. Said Statement of Points raised the following federal constitutional issues now sought to be reviewed:

> "3. Does due process require the Commissioner of Natural Resources to issue leases to qualified bidders for a competitive lease sale?
> ...
> 5. The Commissioner of Natural Resources must publish minimum bids in order to comply with standards of due process."

Additionally, Petitioner's Statement of Points raised the question of the validity of the delegation of state legislative authority.

The federal constitutional issues of due process raised by prior counsel in Petitioner's Statement of Points was discussed briefly in Petitioner's Appellate Brief, as follows:

" POINT III
DUE PROCESS REQUIRES THE COMMISSIONER OF NATURAL RESOURCES TO ISSUE LEASES TO THE HIGHEST QUALIFIED BIDDER

> [Due] process is, and always will be, a difficult concept to reduce to application or define by language. The basic concept of due process may be subdivided into procedural and substantive rights; both of which are subject to action. In the present case, the Commissioner of Natural Resources conduct has offended the doctrine of fundmental [sic] fairness. The bid of Champion Oil Company was accepted as the apparent high bidder and yet was rejected by a bland reference 'not in the best interest of the State.' Such a cavalieered [sic] determination and rejection without any indication of basis other than that already stated certainly is offensive to the traditional notions of fair play and substantial justice which has long been a part of American Jurisprudence. International

Shoe Company v. Washington, 326 U.S. 310, 90 L.Ed. 95, 66 S.Ct. 154 (1945)"

The Alaska Supreme Court addressed itself only to the aforementioned delegation issue, without considering the federal constitutional issue of due process. It affirmed the Order of Summary Judgment entered by the Superior Court.

REASONS FOR GRANTING WRIT

(1) The issues raised by this case lend themselves to the resolution of substantial and important questions concerning the Fourteenth Amendment protection of state-created claims of entitlement or other interests denominated as property within the meaning of the Fourteenth Amendment.

The recent cases of Bis[illegible]ood, 426 U.S. 341, 48 L.Ed.2d 684, 96 S.Ct. 2074 (1976) and Memphis Light, Gas and Water Division v. Craft, 434 U.S. ____,

56 L.Ed 2d 30, 98 S.Ct. 1554 (1978), appear to set forth conflicting answers to the question of whether state law or federal constitutional law is to control the availability and dimension of minimum Fourteenth Amendment protection to be accorded private interests in state-created benefits.

In Bishop v. Wood, the Court has stated that the existence of a property interest and the availability and dimension of Fourteenth Amendment protection to be accorded such an interest is a matter determined by state law. This principle was underscored, in dictum, in Board of Curators of the University of Missouri v. Horowitz, 434 U.S. ____, 55 L.Ed.2d 124, 98 S.Ct. 948 (1978), wherein it was stated that:

> "Because property interests are creatures of state law, Perry v. Sindermann, 408 U.S. 593, 599-603 (1972), respondent would have

> been required to show at trial that her seat at the Medical School was a 'property' interest recognized by Missouri state law."

However, in Memphis Light, Gas and Water Division v. Craft, the Court recognized that a property interest may be created pursuant to state law, but went on to say that:

> "Federal constitutional law determines whether that interest rises to the level of a 'legitimate claim of entitlement' protected by the Due Process Clause. Board of Regents v. Roth, 408 U.S. 564, 577 (1972); Perry v. Sindermann, 408 U.S. 593, 602, (1972)."

Thus, it appears that there is a fundamental and substantial conflict between these cases.

Additionally, the Court in Memphis Light, Gas and Water Division v. Craft went beyond protections afforded by the regulations or procedures set forth by municipality itself, stating that:

> "An elementary and fundamental requirement of the due process in any proceeding which is to be accorded finality is notice reasonably calculated, under all the circumstances, to apprise interested parties of the pendency of the action... ."

The Court held that, notwithstanding the availability of remedies provided by the agency's regulations, sufficient due process protections were absent.

The result obtained in Memphis Light, Gas and Water Division v. Craft, would not appear possible under guidelines enunciated in Bishop v. Wood, yet the latter case was not overruled. Although the majority opinion in Craft distinguished Bishop, apparently on the ground that the state law in Bishop permitted termination (of employment) without cause, whereas the state law in Craft permitted termination (of utility service) only for cause, this distinction does not appear to account for the Craft Court's imposition of Fourteenth Amendment protections exceeding those found in the

regulations of the municipal utility. While the principles of Bishop would require limiting due process protections to the remedies provided in the municipal regulations, the Court in Craft stated that:

> "The availability of such local-law remedies is evidence of the State's recognition of a protected interest."

The fundamental question which arises is substantial and important simply because the answer will determine the degree to which state and local governments may limit due process protections available under the Fourteenth Amendment. See generally Notes, Democratic Due Process: Administrative Procedure After Bishop v. Wood, 1977 Duke L.J. 453, 465.

(2) Under the facts here presented, application of the principles set forth

in Bishop would seemingly require that Petitioner be found to possess a claim of entitlement subject to minimum Fourteenth Amendment protections. This is so because A.S. 38.05 (Alaska Land Act) and Alaska Oil and Gas Leasing Regulations, 11 A.A.C. 84., create a right and a procedural protection thereof. More specifically, 11 A.A.C. 84.110(9) required that notice be published in the event the Director of the Division of Lands prescribed minimum bids. Having actively pursued the acquisition of this government largess, Petitioner acquired a legitimate claim of entitlement to the extent that it met the published requirements. This interest was entitled, under the ruling of Bishop, to that amount of state and Fourteenth Amendment protection as the state chose to provide by statute or regulation. The minimum notice protection, as provided for under A.A.C.

84.110(9), was violated by the state. Petitioner having been the only bidder on seven tracts, notice of the minimum bid requirements, as mandated by agency regulations, would have allowed Petitioner the opportunity to meet that minimum and thereby acquire the seven tracts. Lack of the requisite notice deprived Petitioner of such opportunity, thereby depriving it of a legitimate claim of entitlement without due process of law as required by the Fourteenth Amendment.

(3) 11 A.A.C. 84.110(9) provided that notice was to be published in the event the Director set a minimum bid requirement on the offered tracts. Manifestly, this provision was enacted for the benefit and protection of those participating in the bid lease sale, as was Petitioner. While such a notice provision may very well have been unnecessary to meeting minimum due process requirements, provision for such notice and consequent

violation of that provision by the state, to the prejudice of one relying upon such notice provision, was fundamentally unfair. Notice of requirements bearing upon one's legal and business affairs is a fundamental element of due process under the Fourteenth Amendment. Mullane v. Central Hanover Trust Co., 339 U.S. 306, 314, 94 L.Ed. 865, 70 S.Ct. 652 (1950).

Thus, although the absence of such notice provision would not have necessarily offended due process, the existence of a positive provision for notice led Petitioner to rightfully expect such notice in the event the Director chose to set minimum bid requirements. The amount of Petitioner's bid was based upon the rightful and reasonable belief that no bid minimum existed. The failure of the Director to apprise Petitioner of the minimum bid violated 11 A.A.C. 84.110(9) and deprived Petitioner of any meaningful opportunity to compete for these government benefits.

Petitioner submits that such action by the state offended all concepts of fundamental fairness and deprived it of a legitimate claim of entitlement without due process of law as guaranteed by the Fourteenth Amendment.

CONCLUSION

The Petition for certiorari should be granted.

Respectfully submitted,

FRANCIS J. CONKLIN
Counsel for Petitioner
555 Lincoln Building
Spokane, Washington

OF COUNSEL
FELICE AND FELICE
Attorneys at Law
DENNIS W. CLAYTON, ESQUIRE
555 Lincoln Building
Spokane, Washington 99201

THE SUPREME COURT OF THE STATE OF ALASKA

CHAMPION OIL COMPANY, INC., an Alaska Corporation, Appellant, v. CHARLES F. HERBERT, Commissioner, and THOMAS E. KELLY, Former Commissioner, Department of Natural Resources, F. J. KEENAN, Director of Division of Lands, and the STATE OF ALASKA, Appellees.	File No. 3385 O P I N I O N [No. 1621 - May 5, 1978]

Appeal from the Superior Court of the State of Alaska, Third Judicial District, Anchorage, Ralph E. Moody, Judge.

Appearances: Ty R. Settles, Anchorage, for Appellant. Jeffrey B. Lowenfels, Assistant Attorney General, Anchorage, and Avrum M. Gross, Attorney General, Juneau, for Appellees.

Before: Boochever, Chief Justice, Rabinowitz, Connor and Matthews, Justices, and Dimond, Justice Pro Tem. [Burke, Justice, not participating]

RABINOWITZ, Justice.

This appeal has its genesis in the 23rd Competitive Oil and Gas Lease Sale which was conducted by the State of Alaska in September 1969.[1] In relevant part, the pertinent notice of sale provided:

> A lease will be awarded on each tract to the responsible qualified bidder offering the highest cash bonus for that tract unless all bids on the tract are rejected or a preference right is exercised. If a lease is not issued to a bidder whose bid is retained, the lands in the tract involved will be held and be subject to nomination and offering at a later sale.
>
> . . . .
>
> (b) . . . The bid . . . shall be accompanied by one or more cashier's or certified checks drawn on any solvent bank in the United States, money order, or cash or any combination thereof in a total amount of at least 20 percent (20%) of the amount of the bid. (emphasis supplied)

Pursuant to this notice, Champion Oil submitted bid proposals on all of the tracts involved in the 23rd lease sale in the amount of "one dollar or more." Each bid envelope submitted by Champion contained the sum of 20 cents, representing the required 20% deposit. On seven tracts Champion Oil's bids

1. A previous appeal in this case did not call for decision on the merits; only procedural questions were addressed in Champion Oil Co., Inc. v. Herbert, 552 P.2d 670 (Alaska 1976).

were the high bids, as no other bids were received on these tracts.[2] Subsequently, Champion Oil's bids were rejected as not being "in the best interest of the State of Alaska."

Champion Oil then instituted suit in superior court claiming it was entitled to be awarded leases on the seven tracts.[3] The State of Alaska moved for summary judgment which was granted by the superior court. In its memorandum decision, the superior court concluded:

> [T]here appears to be a rational basis for rejecting the bids on the basis that the bids were not in the best interest of the State. Kelly v. Zamarello, 486 P.2d 906 (Alaska 1971).
>
> There being no genuine issue of fact to be decided,
>
> IT IS ORDERED that the decision of the Commissioner of Natural Resources and the Director of Division of Lands, to reject the plaintiffs' bids, is affirmed.

Champion Oil brings this appeal from the superior court's grant of summary judgment to the State of Alaska. The primary contention advanced by Champion Oil, in support of its overall position that entry of summary judgment was

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2. In all 1,102 bids were submitted on the 179 tracts involved in the sale which encompassed 450,858.47 acres of land. The average bid per tract was $5,029,154.13 and the average bid per acre was $1,996.68.

3. The earlier procedural history of this case is recounted in this court's previous decision, Champion Oil Co., Inc. v. Herbert, 552 P.2d 670, 671 (Alaska 1976).

inappropriate, is that AS 38.05.180[4] embodies an impermissibly overbroad delegation of legislative authority to the Commissioner of Natural Resources. Our study of this specification of

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4. AS 38.05.180(a) provides: All tide and submerged lands, mental health lands, school lands, and university lands shall be leased by competitive bidding, and whenever oil or gas [is] discovered in commercial quantities, the commissioner shall determine the extent of the area of lands in addition to tide, submerged, mental health lands, school, or university lands in the same general area of the discovery well which, by reason of the discovery, the commissioner reasonably believes to be capable of producing oil or gas, and the additional lands shall be leased to the highest reasponsible qualified bidder by competitive bidding under general regulations, in units of not exceeding 2,560 acres (except that tide and submerged lands shall be leased in units of not exceeding 5,760 acres), which shall be as nearly compact in form as possible, upon the payment by the lessee of such bonus as may be accepted by the commissioner and of such royalty as may be fixed in the lease which shall not be less than 12 1/2 per cent in amount or value of the production removed or sold from the lease. All lands other than those above provided to be leased by competitive bidding may be leased competitively or noncompetitively as determined by the commissioner to be in the best interests of the state. Noncompetitive leases shall be issued in units of not exceeding 2,560 acres in any one lease. Noncompetitive leases shall be conditioned upon the payment by the lessee of a royalty of 12 1/2 per cent in amount or value of the production removed or sold from the lease. Competitive leases issued under this subsection shall be for 10 years except that in the Cook Inlet sedimentary

error has convinced us that the appeal is devoid of merit. We thus affirm the superior court's grant of summary judgment in favor of the State of Alaska.

It is well established that the burden is placed on the party moving for summary judgment to demonstrate the

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(footnote 4 continued)

> basin, leases shall be for a primary term of not more than 10 years and not less than five years at the discretion of the commissioner, and shall continue so long thereafter as oil or gas is produced in paying quantities. Noncompetitive leases issued under this subsection shall be for a primary term of five years and shall continue so long thereafter as oil or gas is produced in paying quantities. If drilling has commenced on the expiration date of the primary term of the lease and is continued with reasonable diligence, such operations to include redrilling, sidetracking or other means necessary to reach the originally proposed bottom hole location, the lease shall continue in effect until 90 days after drilling has ceased and for so long thereafter as oil or gas is produced in paying quantities. If all or part of the lands covered by the lease are lands that have been selected by the state under laws of the United States granting lands to the state and a patent has not been issued on them, a conditional lease may be issued. However, no term extension may be granted for the period during which the lease was conditional.

absence of any genuine issues of material fact before summary judgment is appropriate. See Alaska Rent-a-Car, Inc. v. Ford Motor Co., 526 P.2d 1136, 1138 (Alaska 1974). The party opposing the motion is not required to show that it will prevail at trial, but it must demonstrate that there exists a genuine issue of material fact to be litigated. Id. at 1139. Viewing the facts most favorably to Champion Oil, study of the record reveals an absence of any genuine issues of material fact.[5] It is uncontested that Champion Oil was the apparent high bidder on the seven tracts in question. It is also uncontested that these bids were rejected by the Commissioner of Natural Resources as not being "in the best interest of the State of Alaska."

As indicated previously, the primary legal argument

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5. Champion Oil filed the following as purported "Genuine Issues of Material Fact":

> 1. Was the bid of Champion Oil accepted as the high bid.
>
> 2. Was the Commissioner of the Department of Natural Resources acting arbitrarily.
>
> 3. Did the Department of Natural Resources accept Champion Oil Company's bid.
>
> 4. Were any identifiable standards applied by the Department of Natural Resources.
>
> 5. Did the Commissioner of Natural Resources abuse his discretion.

advanced by an appellant is whether AS 38.05.180(a)[6] embodies an overbroad delegation of legislative authority to the Commissioner of Natural Resources. Closely alligned with this argument is the further contention that 11 AAC 505.11, 11 AAC 505.43 and 11 AAC 505.51[7] are invalid regulations. In our view, Kelly v. Zamarello, 486 P.2d 906 (Alaska 1971), is dispositive of these contentions. Kelly v. Zamarello arose out of the same oil and gas lease sale as does the present case. There we addressed a challenge to the validity of

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6. See note 4, supra.

7. The applicable regulations at the time of the 23rd Competitive Oil and Gas Lease Sale are reproduced belos.

11 AAC 505.11 provided, in part:

> Competitive lands may be leased only upon competitive bidding by cash bonus submitted in response to a published notice of lease offer. . . .

11 AAC 505.43 provided:

> The Director, with the concurrence of the Commissioner, may reject all bids if he determines that the best interest of Alaska justify such action.

11 AAC 505.51 provided:

> Within a reasonable time following the lease sale, the Director shall aware the lease to the responsible qualified bidder offering the highest cash bonus and complying with the bid requirements unless all bids are rejected.

11 ACC 505.11 and 11 AAC 505.51 and sustained the regulations. In addition, we implicitly upheld the validity of AS 38.05.180(1) and explicitly determined that the legislature had given the Commissioner of Natural Resources "broad authority" concerning competitive bidding procedures.[8] Furthermore, in discussing 11 AAC 505.11 and 11 AAC 595.51, we conclude:

> [W]hen a regulation has been adopted under a delegation of authority from the legislature to the administrative agency to formulate policies and to act in the place of the legislature, we should not examine the content of the regulation to judge its wisdom, but should exercise a scope of review not unlike that exercised with respect to a statute. [9]

In Kelly v. Zamarello, we also held that neither 11 AAC 505.11 nor 11 AAC 505.51 was unreasonable or arbitrary.

Concerning 11 AAC 505.43 -- which allows the Director, with the concurrence of the Commissioner, to reject all bids if he determines that they are not in the

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8. Kelly v. Zamarello, 486 P.2d 906, 912 (Alaska 1971). We also noted that AS 38.05.020 (b)(1) authorized the Commissioner to "establish reasonable procedures and adopt reasonable rules and regulations necessary to carry out" the Alaska Land Act. Id.

9. Id. at 911

10. Id. at 912-13. See note 7, supra, for the texts of 11 AAC 505.11 and 11 AAC 505.51.

best interests of the State of Alaska -- we note that this is the type of "valid regulation" anticipated by Kelly v. Zamarello. Although in Kelly v. Zamarello, we did not explicitly address the issue of the validity of 11 AAC 505.43,[11] we did state, in part:

> [I]t is not unreasonable for the Commissioner to determine that it is in the state's best interest to receive compensation for the leases immediately upon the award of the lease, rather than to wait for uncertain sums to arrive in the form of premium royalties. [12]

In light of the foregoing, we conclude that the "best interests" standard of 11 AAC 505.43 is not unreasonable, arbitrary or legally deficient.

Concerning the applicable standard of judicial review of decisions made by the Department of Natural Resources, we held in Kelly v. Zamarello that "[t]he decision by the Department of Natural Resources [in finding that the bids were nonresponsive] is a proper one for application of the reasonable basis standard of judicial review."[13] Noting that this test "is extremely useful where the

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11. See note 7, supra, for the text of 11 AAC 505.43.

12. Kelly v. Zamarello, 486 P.2d 906, 912 (Alaska 1971).

13. Id. at 915.

administrative action under review resembles executive as opposed to legislative or judicial activity,"[14] we said in Kelly v. Zamarello, "We do not pretend to know the precise motivation of the Commissioner in rejecting plaintiffs' bids . . . ; it is sufficient for our purposes to note that there are reasonable bases to support such a rejection."[15] In the case at bar, the record adequately shows that the Commissioner and the Director had a reasonable basis to determine that acceptance of Champion's $1.00 per tract bid for the oil and gas lands involved would not be in the best

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14. Id. at 916.

15. Id. at 918.

interests of t state.[16] Among the facts the record, we

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16. Appellant has articulated the following additional specifications of error:

> 1. The Regulations of the Department of Natural Resources are an invalid delegation of legislative authority.
>
> . . . .
>
> 3. Due process requires the Commissioner of Natural Resources to issue leases to the highest qualified bidder.
>
> 4. The Trial Court erred in ruling a rational basis exists.
>
> 5. Minimum bids must be published.
>
> 6. The standard of 'in the best interests of the State' is a pre-lease determination.
>
> 7. The Trial Court erred in granting Summary Judgment as a genuine issue of material fact existed.

We deem it unnecessary to explicitly address the other issues raised by appellant as our analysis of them has not persuaded us that the superior court erred in granting summary judgment to the state. Nevertheless, we do think it appropriate to make the following observations.

The notice of sale specifically provided that the lease would be awarded "unless all bids on the tract [were] rejected . . . ." In rejecting Champion Oil's bid on each of the seven tracts in question, the state rejected all bids on those tracts and was well within its rights in so doing. Appellant's arguments that the Commissioner's actions deny him due process and that statutory language mandates the Commissioner to lease to the highest bidder do not withstand a simple reading of the statute or the notice of sale.

Appellant also contends that minimum bids must be published. However, 11 AAC 505.15 specifically states:

> The director may, but need not, prescribe the

think it is necessary to note only the enormous disparity between the bids of Champion Oil and the average bids on the tracts leased.[17] In our view, this disparity in and of itself demonstrates the existence of a reasonable basis for the decision of the Commissioner of Natural Resources and the Director of the Division of Lands.

The superior court's grant of summary judgment to the State of Alaska is Affirmed.[18]

(footnote 16 continued)

> minimum bid that will be considered at any lease sale.

Furthermore, there is no indication that minimum bids were established with regard to the lease sale in question.

17. See note 2, supra.

18. We also think it appropriate to reiterate the observations made in Ault v. Alaska State Mortgage Ass'n, 387 P.2d 698, 701-02 (Alaska 1963), where we remanded a summary disposition of a constitutional challenge to the creation of the Alaska State Mortgage Association due to an inadequate evidentiary record:

> We are not holding that summary judgment procedure in cases of this nature is unacceptable. We do hold that if summary procedure is employed in cases involving important public issues where any fact is in dispute the trial judge should not attempt to render a decision unless he is satisfied that the evidence, both pro and con, is sufficient to give him the necessary background of knowledge.

IN THE TRIAL COURTS FOR THE STATE OF ALASKA

THIRD JUDICIAL DISTRICT AT ANCHORAGE

CHAMPION OIL COMPANY, INC., an Alaska corporation, et al.,

Plaintiffs,

vs.

CHARLES F. HERBERT, Commissioner, et al.,

Defendants.

No. 74-4411

MEMORANDUM DECISION

Upon consideration of the documents, the bids in question, and the statute and regulation involved, there appears to be a rational basis for rejecting the bids on the basis that the bids were not in the best interest of the State. Kelly v. Zamarello, 486 P.2d 906 (Ak. 1971).

There being no genuine issue of fact to be decided,

IT IS ORDERED that the decision of the Commissioner of Natural Resources and the Director of Division of Lands, to reject the plaintiffs' bids, is affirmed.

DONE at Anchorage, Alaska, this 23rd day of February, 1977.

Ralph E. Moody, Presiding
Superior Court Judge

I certify that on 2/23/77, I mailed a true and correct copy of the above Memorandum Decision to the following at their addresses of record: AG/Lowenfels; Frank Wetzel, pro per; Ty Settles.

Secretary to Judge Moody

APPENDIX B

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